

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Clayton Charter Township	County Genesee
Fiscal Year End December 31, 2006	Opinion Date June 11, 2007	Date Audit Report Submitted to State June 27, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☒ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☒ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number 248-952-5000	
Street Address 5750 New King Street		City Troy	State MI
Zip 48098			
Authorizing CPA Signature Thomas Darling, CPA	Printed Name Thomas E. Darling		License Number A246550

Digitally signed by Thomas Darling, CPA
DN: cn=Thomas Darling, CPA, c=US, o=Rehmann
Robson, email=tdarling@rehmann.com
Date: 2007.06.26 10:34:32 -0400

CLAYTON CHARTER TOWNSHIP
Genesee County, Michigan

FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION

For the Year Ended December 31, 2006

CLAYTON CHARTER TOWNSHIP
Genesee County, Michigan

FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION

For the Year Ended December 31, 2006

CLAYTON CHARTER TOWNSHIP

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

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INDEPENDENT AUDITORS' REPORT

June 11, 2007

To the Board of Trustees
Clayton Charter Township
Genesee County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **Clayton Charter Township**, as of and for the year ended December 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the **Clayton Charter Township** management. Our responsibility is to express opinions on these financial statements based on our audit.

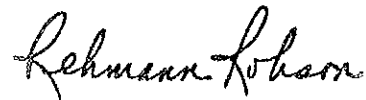
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **Clayton Charter Township** as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison of the General, Police and Sanitation funds for the year then ended in conformity with accounting principles general accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 11, 2007, on our consideration of the **Clayton Charter Township** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis listed in the table of contents on pages 3 through 12 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the *Clayton Charter Township* basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script, reading "Lehmann Lohorn".

Management's Discussion and Analysis

CLAYTON CHARTER TOWNSHIP

Management's Discussion and Analysis

As management of the **Clayton Charter Township**, Michigan, (the "Township") we offer readers of the Township's financial statements this narrative overview and analysis of the activities of the Township for the fiscal year ended December 31, 2006.

Financial Highlights

- The unreserved, undesignated fund balances for all governmental type funds totaled \$1,095,559 at the current fiscal year end.
- The General Fund unreserved fund balance amounted to \$1,052,534 at the current fiscal year end.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Township include general government, public safety, public service, community development, and sanitation. The business-type activities of the Township include water distribution and sanitary sewer operations.

CLAYTON CHARTER TOWNSHIP

Management's Discussion and Analysis

Fund financial statements. A Fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

1. **Governmental funds** are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Township maintains seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Police and Sanitation funds, each of which are considered to be major funds. Data from the other four governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements after the Notes to Financial Statements.

The Township adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets for the General Fund and special revenue funds.

2. **Proprietary funds.** The Township maintains one type of proprietary fund: Enterprise funds are used to provide the same functions presented as business-type activities in the government-wide financial statements. The Township uses an enterprise fund to account for its water and sanitary sewer operations.

CLAYTON CHARTER TOWNSHIP

Management's Discussion and Analysis

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the water and sewer operation which is considered to be a major fund of the Township.

3. **Fiduciary funds.** The Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Township's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The Township has two agency funds to account for tax collections and other governmental agency responsibilities.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information in connection with nonmajor governmental funds.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Clayton Charter Township, assets exceeded liabilities by \$6,577,154 at the close of the most recent fiscal year.

By far the largest portion of the Township's net assets (64%) reflects its investment in capital assets (e.g., land, buildings and improvements, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Township uses these capital assets to provide services to residents; consequently, these assets are not available for future spending. Although the Township's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CLAYTON CHARTER TOWNSHIP

Management's Discussion and Analysis

Clayton Charter Township's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 2,039,928	\$ 1,917,684	\$ 1,731,039	\$ 1,229,929	\$ 3,770,967	\$ 3,147,613
Capital assets, net	486,924	496,893	5,438,630	3,428,606	5,925,554	3,925,499
Total assets	2,526,852	2,414,577	7,169,669	4,658,535	9,696,521	7,073,112
Current liabilities	939,869	941,257	483,365	152,418	1,423,234	1,093,675
Noncurrent liabilities	-	51,263	1,696,133	-	1,696,133	51,263
Total liabilities	939,869	992,520	2,179,498	152,418	3,119,367	1,144,938
Net assets						
Invested in capital assets, net of related debt	486,924	496,893	3,690,015	3,428,606	4,176,939	3,925,499
Restricted assets	39,889	43,250	-	-	39,889	43,250
Unrestricted	1,060,170	933,177	1,300,156	1,077,511	2,360,326	2,010,688
Total net assets	\$ 1,586,983	\$ 1,473,320	\$ 4,990,171	\$ 4,506,117	\$ 6,577,154	\$ 5,979,437

An additional portion of the Township's net assets (less than 1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets of \$2,360,326 (approximately 36%), may be used to meet the government's ongoing obligations to citizens and creditors.

The Township's net assets increased by \$597,717 during the current fiscal year. This increase is a result of both governmental and business type activities as described below.

Governmental activities. Governmental activities increased the Township's net assets by \$113,663, thereby accounting for approximately 19% of the Township's change in total net assets. The key factors are related to actual revenues in excess of projected budgets in the areas of investment earnings and charges for services.

CLAYTON CHARTER TOWNSHIP

Management's Discussion and Analysis

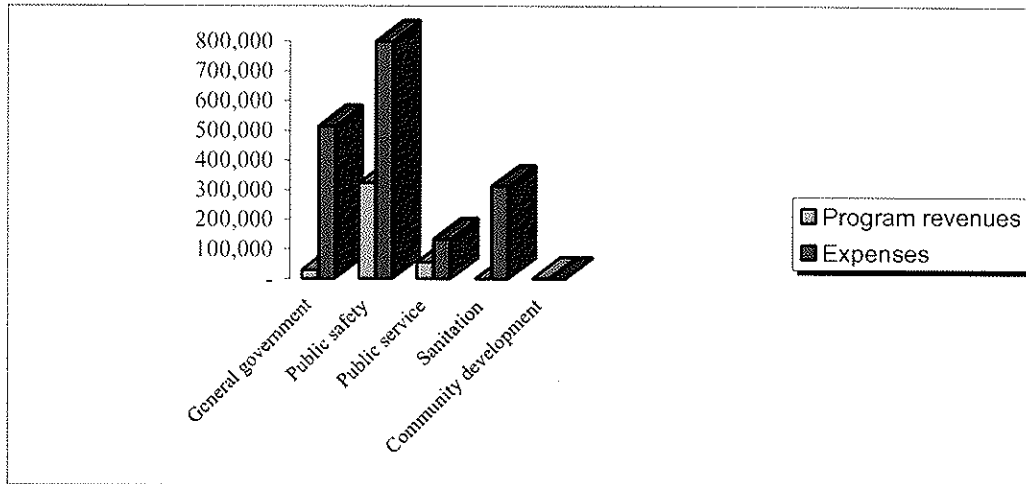
Clayton Charter Township's Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenue						
Program revenues						
Charges for services	\$ 408,585	\$ 374,527	\$ 763,352	\$ 874,062	\$ 1,171,937	\$ 1,248,589
Operating grants and contributions	1,769	43,326	-	-	1,769	43,326
Capital grants and contributions	-	-	383,115	835,747	383,115	835,747
General revenues						
Property taxes	747,387	708,952	-	-	747,387	708,952
State shared revenue	509,414	510,250	-	-	509,414	510,250
Grants and contributions not restricted to specific programs	139,677	55,857	-	-	139,677	55,857
Other	68,932	44,200	51,597	32,516	120,529	76,716
Total revenues	1,875,764	1,737,112	1,198,064	1,742,325	3,073,828	3,479,437
Expenses						
General government	513,433	454,446	-	-	513,433	454,446
Public safety	799,762	655,059	-	-	799,762	655,059
Public service	134,453	179,426	-	-	134,453	179,426
Community development	1,769	2,269	-	-	1,769	2,269
Sanitation	312,684	299,578	-	-	312,684	299,578
Water and sewer	-	-	714,010	716,372	714,010	716,372
Total expenses	1,762,101	1,590,778	714,010	716,372	2,476,111	2,307,150
Increase in net assets	113,663	146,334	484,054	1,025,953	597,717	1,172,287
Net assets - beginning	1,473,320	1,326,986	4,506,117	3,480,164	5,979,437	4,807,150
Net assets - ending	\$ 1,586,983	\$ 1,473,320	\$ 4,990,171	\$ 4,506,117	\$ 6,577,154	\$ 5,979,437

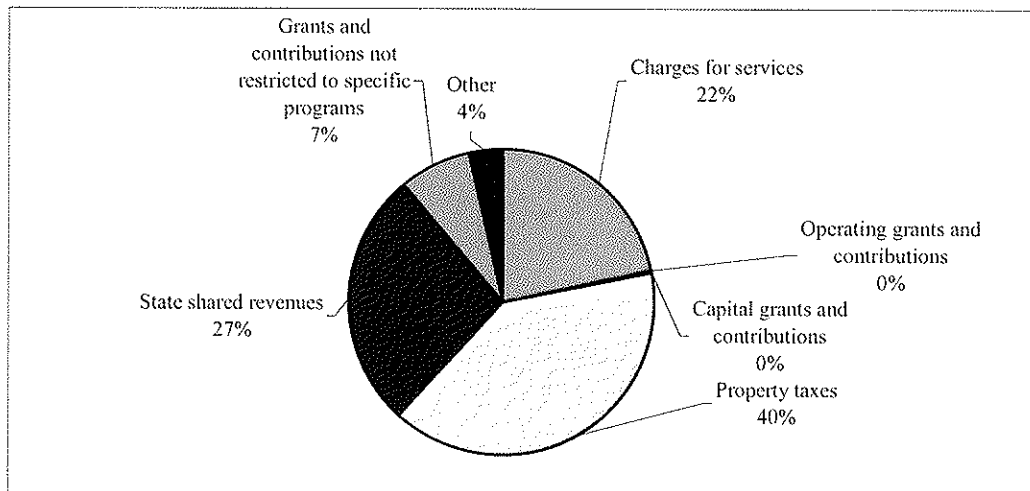
CLAYTON CHARTER TOWNSHIP

Management's Discussion and Analysis

Expenses and Program Revenues – Governmental Activities



Revenues by Source – Governmental Activities



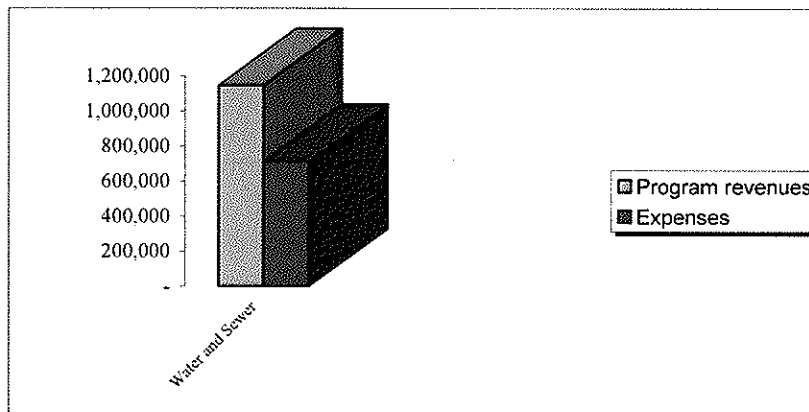
Business-type Activities. Business-type activities increased the Township's net assets by \$484,054, accounting for approximately 81% of the Township's total increase in net assets. Key elements of this increase are as follows:

CLAYTON CHARTER TOWNSHIP

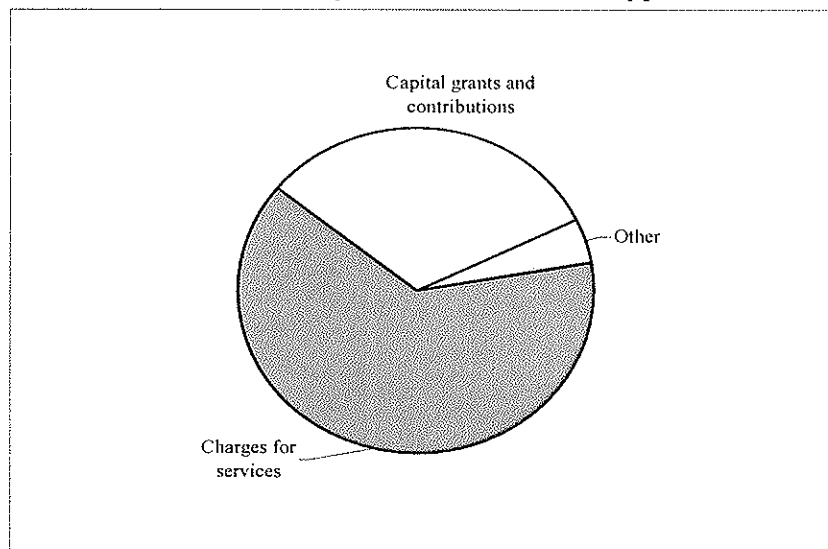
Management's Discussion and Analysis

- The fee structure for the business type activities is designed to build cash reserves for anticipated future capital expenditures.
- The Township received \$383,115 in capital grants and contributions in 2006, which is a decrease from capital grants and contributions of \$835,747 in 2005.

Expenses and Program Revenues - Business-Type Activities



Revenues by Source - Business-Type



CLAYTON CHARTER TOWNSHIP

Management's Discussion and Analysis

Financial Analysis of the Government's Funds

As noted earlier, the Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Township's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Township's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$1,100,059 an increase of \$72,369 in comparison with the prior year. Most of this total amount, \$1,095,559, constitutes unreserved, undesignated fund balance, which is available for spending at the government's discretion. The remainder of fund balance (less than 1%) is reserved to indicate that it is not available for new spending because it has already been committed to other purposes.

The general fund is the chief operating fund of the Township. General fund unreserved fund balance was \$1,052,534 at the end of the current fiscal year. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 105% of the current year's total general fund expenditures.

The fund balance of the Township's general fund increased by \$63,761 during the current fiscal year. This is primarily attributable to the effects of revenues exceeding originally budgeted expectations and the results of cost containment measures.

Proprietary funds. The Township's proprietary fund provides the same type of information found in the government wide financial statements, but in more detail.

Unrestricted net assets of the Water and Sewer Fund amounted to \$1,300,156 at the end of the year. The increase in total net assets was \$484,055 during the operating year. This increase was primarily due to the results of operations in the amount of \$187,143, non-operating revenues in the amount of \$51,597 and capital contributions in the amount of \$245,315.

CLAYTON CHARTER TOWNSHIP

Management's Discussion and Analysis

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were relatively minor. The increase in budgeted revenues of \$153,691 and increase in budgeted expenditures of \$175,492 can be briefly summarized as follows:

- Budgeted revenues were increased primarily due to higher than expected inspection revenues and investment earnings.
- Budgeted expenditures were increased primarily due to higher than expected costs associated with the Township Hall roof and other related costs.

Capital Asset and Debt Administration

Capital assets. The Township's investment in capital assets for its governmental and business-type activities as of December 31, 2006, amounted to \$5,925,554 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, equipment, vehicles, and roads, highways, and other infrastructure. The total \$5,925,554 in the Township's investment in capital assets for the current fiscal year represents a decrease in governmental activities of \$9,969 or 2%, and an increase in business-type activities of \$2,010,024 or 59%.

Major capital asset events during the current fiscal year included the following:

- Purchase of police vehicles and equipment
- Water/Sewer line contributions

Clayton Charter Township's Capital Assets (net of depreciation)

	Governmental Activities	Business-Type Activities	Total
Land	\$ 63,842	\$ -	\$ 63,842
Construction-in-progress	-	2,055,995	2,055,995
Buildings	179,459	-	179,459
Building improvements	42,478	-	42,478
Land improvements	23,387	-	23,387
Public infrastructure	53,417	3,382,635	3,436,052
Vehicles	70,694	-	70,694
Equipment	53,647	-	53,647
Total	\$ 486,924	\$ 5,438,630	\$ 5,925,554

CLAYTON CHARTER TOWNSHIP

Management's Discussion and Analysis

Further information regarding capital assets can be found in the notes to the financial statements.

Long-term Debt

At the end of the current fiscal year, the Township had total notes payable of \$1,748,615 related to an agreement with Genesee County for the Western Trunk Extension of the County's sanitary sewage disposal system. The note payable is backed by the full faith and credit of the Township.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the Township's budget for the 2007 fiscal year:

- Taxable value of real and personal property to stay relatively level.
- Conservative revenue projections.
- Increase in wages and benefit costs.
- The uncertainty of State Shared Revenue.
- Considered new laws (e.g. the additional cost for summer tax assessment).
- Capital expenditures to decrease from prior year.

Requests for Information

This financial report is designed to provide a general overview of the Township's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Financial Administrator, 2011 S. Morrish Road, Swartz Creek, MI 48473.

*Basic
Financial Statements*

CLAYTON CHARTER TOWNSHIP

STATEMENT OF NET ASSETS

December 31, 2006

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and investments	\$ 1,493,165	\$ 1,497,255	\$ 2,990,420
Receivables (net)	513,970	266,559	780,529
Internal balances	32,775	(32,775)	-
Prepays	18	-	18
Capital assets			
Capital assets not being depreciated	63,842	2,055,995	2,119,837
Capital assets being depreciated, net	423,082	3,382,635	3,805,717
Total assets	2,526,852	7,169,669	9,696,521
Liabilities			
Accounts payable	104,833	183,069	287,902
Accrued liabilities	40,667	-	40,667
Due to other governments	-	247,814	247,814
Unearned revenue	794,369	-	794,369
Noncurrent liabilities			
Due within one year	-	52,482	52,482
Due in more than one year	-	1,696,133	1,696,133
Total liabilities	939,869	2,179,498	3,119,367
Net assets			
Invested in capital assets, net of related debt	486,924	3,690,015	4,176,939
Restricted for			
Sanitation	23,172	-	23,172
Debt service	4,500	-	4,500
Capital projects	2,115	-	2,115
Public utilities	10,102	-	10,102
Unrestricted	1,060,170	1,300,156	2,360,326
Total net assets	\$ 1,586,983	\$ 4,990,171	\$ 6,577,154

The accompanying notes are an integral part of these financial statements.

CLAYTON CHARTER TOWNSHIP

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2006

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities					
General government	\$ 513,433	\$ 30,076	\$ -	\$ -	\$ (483,357)
Public safety	799,762	322,869	-	-	(476,893)
Public service	134,453	55,640	-	-	(78,813)
Community development	1,769	-	1,769	-	-
Sanitation	312,684	-	-	-	(312,684)
Total governmental activities	1,762,101	408,585	1,769	-	(1,351,747)
Business-type activities					
Water and sewer	714,010	763,352	-	383,115	432,457
Total business-type activities	714,010	763,352	-	383,115	432,457
Total primary government	\$ 2,476,111	\$ 1,171,937	\$ 1,769	\$ 383,115	\$ (919,290)

The accompanying notes are an integral part of these financial statements.

CLAYTON CHARTER TOWNSHIP

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2006

	Primary Government		Total
	Governmental Activities	Business-type Activities	
Changes in net assets			
Net (expense) revenue	\$ (1,351,747)	\$ 432,457	\$ (919,290)
General revenues			
Property taxes	747,387	-	747,387
State shared revenue	509,414	-	509,414
Grants and contributions not restricted to specific programs	139,677	-	139,677
Unrestricted investment earnings	68,932	51,597	120,529
Total general revenues	1,465,410	51,597	1,517,007
Change in net assets	113,663	484,054	597,717
Net assets, beginning of year	1,473,320	4,506,117	5,979,437
Net assets, end of year	\$ 1,586,983	\$ 4,990,171	\$ 6,577,154

The accompanying notes are an integral part of these financial statements.

CLAYTON CHARTER TOWNSHIP

BALANCE SHEET

GOVERNMENTAL FUNDS

December 31, 2006

	General Fund	Police Fund	Sanitation Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 1,165,230	\$ 126,934	\$ 176,388	\$ 24,613	\$ 1,493,165
Receivables (net of allowance for uncollectibles)					
Current taxes	80,081	9,844	554	76	90,555
Customer assessments	130,845	122,957	157,788	11,825	423,415
Due from other funds	32,775	-	-	4,500	37,275
Prepays	18	-	-	-	18
Total assets	\$ 1,408,949	\$ 259,735	\$ 334,730	\$ 41,014	\$ 2,044,428
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 78,832	\$ 24,249	\$ -	\$ 1,752	\$ 104,833
Accrued liabilities	35,797	4,870	-	-	40,667
Due to other funds	4,500	-	-	-	4,500
Deferred revenue	237,286	222,980	311,558	22,545	794,369
Total liabilities	356,415	252,099	311,558	24,297	944,369
Fund balances					
Reserved for					
Debt service	-	-	-	4,500	4,500
Unreserved, undesignated for					
General fund	1,052,534	-	-	-	1,052,534
Capital projects	-	-	-	2,115	2,115
Special revenue funds	-	7,636	23,172	10,102	40,910
Total fund balances	1,052,534	7,636	23,172	16,717	1,100,059
Total liabilities and fund balances	\$ 1,408,949	\$ 259,735	\$ 334,730	\$ 41,014	\$ 2,044,428

The accompanying notes are an integral part of these financial statements.

CLAYTON CHARTER TOWNSHIP

RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS

December 31, 2006

Fund balances - total governmental funds	\$ 1,100,059
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets

978,752

Deduct: accumulated depreciation

(491,828)

Net assets of governmental activities

\$ 1,586,983

The accompanying notes are an integral part of these financial statements.

CLAYTON CHARTER TOWNSHIP

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

For the Year Ended December 31, 2006

	General Fund	Police Fund	Sanitation Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Property taxes	\$ 220,158	\$ -	\$ -	\$ -	\$ 220,158
Customer assessments	-	207,629	300,755	18,845	527,229
Licenses and permits	173,213	-	-	-	173,213
Intergovernmental - state	509,414	1,140	-	1,769	512,323
Charges for services	122,663	-	-	-	122,663
Interest	56,531	3,455	7,957	989	68,932
Miscellaneous	60,932	190,314	-	-	251,246
Total revenues	1,142,911	402,538	308,712	21,603	1,875,764
Expenditures					
General government	518,650	-	-	-	518,650
Public safety	315,578	425,569	-	-	741,147
Public service	113,493	-	-	26,613	140,106
Sanitation	600	-	312,684	-	313,284
Community development	-	-	-	1,769	1,769
Debt service:					
Principal	51,263	-	-	-	51,263
Interest	1,306	-	-	-	1,306
Capital outlay	-	-	-	35,870	35,870
Total expenditures	1,000,890	425,569	312,684	64,252	1,803,395
Revenues over (under) expenditures	142,021	(23,031)	(3,972)	(42,649)	72,369
Other financing sources (uses)					
Transfers in	-	35,000	-	43,260	78,260
Transfers out	(78,260)	-	-	-	(78,260)
Total other financing sources (uses)	(78,260)	35,000	-	43,260	-
Net change in fund balances	63,761	11,969	(3,972)	611	72,369
Fund balances (deficit), beginning of year	988,773	(4,333)	27,144	16,106	1,027,690
Fund balances, end of year	\$ 1,052,534	\$ 7,636	\$ 23,172	\$ 16,717	\$ 1,100,059

The accompanying notes are an integral part of these financial statements.

CLAYTON CHARTER TOWNSHIP

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2006

Net change in fund balances - total governmental funds	\$ 72,369
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	51,102
Deduct: depreciation expense	(57,050)
Deduct: loss on disposal of capital assets	(4,021)

Repayment of installment purchase agreement principal is reported as an expenditure in governmental funds and, thus, has the effect of reducing fund balance because current financial resources have been used. Principal payments reduce the liabilities in the statement of net assets and do not result in an expense in the statement of activities.

Add: principal payments on long term obligations	<u>51,263</u>
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Change in net assets of governmental activities	<u><u>\$ 113,663</u></u>
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The accompanying notes are an integral part of these financial statements.

CLAYTON CHARTER TOWNSHIP
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended December 31, 2006

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under) Final Budget
Revenues				
Property taxes	\$ 221,641	\$ 221,641	\$ 220,158	\$ (1,483)
Licenses and permits	124,700	174,400	173,213	(1,187)
Intergovernmental - state	520,000	520,000	509,414	(10,586)
Charges for services	107,136	112,735	122,663	9,928
Investment earnings	16,000	54,000	56,531	2,531
Other	500	60,892	60,932	40
Total revenues	989,977	1,143,668	1,142,911	(757)
Expenditures				
General government:				
Township Board	150,510	152,952	141,013	(11,939)
Supervisor	97,650	171,372	167,724	(3,648)
Elections	17,500	14,825	13,651	(1,174)
Clerk	82,720	88,720	87,261	(1,459)
Treasurer	34,000	34,650	32,483	(2,167)
Township hall and grounds	40,350	60,950	56,570	(4,380)
Cemetery	7,700	7,900	7,456	(444)
Zoning Board	9,700	11,700	10,067	(1,633)
Appeal Board	2,250	2,250	1,050	(1,200)
Board of Review	1,850	1,850	1,375	(475)
Total general government	444,230	547,169	518,650	(28,519)
Public safety				
Police	3,750	2,565	2,564	(1)
Fire	144,986	149,975	147,228	(2,747)
Building department	134,701	173,950	165,786	(8,164)
Total public safety	283,437	326,490	315,578	(10,912)
Public service	97,867	127,367	113,493	(13,874)
Sanitation	600	600	600	-
Debt service				
Principal	53,000	53,000	51,263	(1,737)
Interest	-	-	1,306	1,306
Total expenditures	879,134	1,054,626	1,000,890	(53,736)
Excess of revenues over expenditures	110,843	89,042	142,021	52,979
Other financing sources (uses)				
Transfers out	(110,843)	(89,042)	(78,260)	10,782
Proceeds from sale of fixed assets	-	-	-	-
Total other financing sources (uses)	(110,843)	(89,042)	(78,260)	10,782
Net change in fund balances	-	-	63,761	63,761
Fund balance, beginning of year	988,773	988,773	988,773	-
Fund balance, end of year	\$ 988,773	\$ 988,773	\$ 1,052,534	\$ 63,761

The accompanying notes are an integral part of these financial statements.

CLAYTON CHARTER TOWNSHIP

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL POLICE FUND

For the Year Ended December 31, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 203,000	\$ 203,000	\$ 207,629	\$ 4,629
Intergovernmental - state	700	1,150	1,140	(10)
Interest	500	2,800	3,455	655
Miscellaneous	59,144	185,118	190,314	5,196
Total revenues	263,344	392,068	402,538	10,470
Expenditures				
Public safety	351,096	437,850	425,569	(12,281)
Excess (deficiency) of revenues over (under) expenditures	(87,752)	(45,782)	(23,031)	22,751
Other financing sources (uses)				
Transfers in	87,752	45,782	35,000	(10,782)
Total other financing sources (uses)	87,752	45,782	35,000	(10,782)
Net change in fund balances	-	-	11,969	11,969
Fund balance, beginning of year	11,725	11,725	(4,333)	(16,058)
Fund balance, end of year	\$ 11,725	\$ 11,725	\$ 7,636	\$ (4,089)

The accompanying notes are an integral part of these financial statements.

CLAYTON CHARTER TOWNSHIP

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL SANITATION FUND

For the Year Ended December 31, 2006

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Customer assessments	\$ 294,410	\$ 301,710	\$ 300,755	\$ (955)
Interest	2,500	6,000	7,957	1,957
Total revenues	296,910	307,710	308,712	1,002
Expenditures				
Sanitation	303,690	313,286	312,684	(602)
Net change in fund balances	(6,780)	(5,576)	(3,972)	1,604
Fund balance, beginning of year	27,144	27,144	27,144	-
Fund balance, end of year	\$ 20,364	\$ 21,568	\$ 23,172	\$ 1,604

The accompanying notes are an integral part of these financial statements.

CLAYTON CHARTER TOWNSHIP**STATEMENT OF NET ASSETS****PROPRIETARY FUND**

December 31, 2006

	Water Supply and Sewage Disposal System
Assets	
Current assets	
Cash and investments	\$ 1,497,255
Receivables	
Customers	38,397
Unbilled utility charges	137,035
Delinquent fees	44,870
Accrued interest	1,899
Due from other governments	19,450
Total current assets	1,738,906
Noncurrent assets	
Tap-in contracts receivable - long term	24,908
Capital assets	6,223,317
Less accumulated depreciation	(784,687)
Total noncurrent assets	5,463,538
Total assets	7,202,444
Liabilities	
Current liabilities	
Accounts payable	183,069
Due to other governments	247,814
Due to other funds	32,775
Current portion of long term debt	52,482
Total current liabilities	516,140
Noncurrent liabilities	
Long-term debt	1,696,133
Total liabilities	2,212,273
Net assets	
Investment in capital assets, net of related debt	3,690,015
Unrestricted	1,300,156
Total net assets	\$ 4,990,171

The accompanying notes are an integral part of these financial statements.

CLAYTON CHARTER TOWNSHIP
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET ASSETS
PROPRIETARY FUND

For the Year Ended December 31, 2006

	Water Supply and Sewage Disposal System
Operating revenues	
Sewer treatment fees	\$ 384,259
Water usage fees	226,104
Tap fees	275,500
Other	15,289
Total operating revenues	901,152
Operating expenses	
Sewer treatment	213,476
Water usage cost	219,933
Computer billing	3,244
Hydrant expense	4,860
Pump station expense	47,981
Depreciation	45,971
Administration - salaries and fringe benefits	47,800
Professional fees	2,147
Other	128,598
Total operating expenses	714,010
Operating income	187,142
Non-operating revenues	
Interest on investments	51,597
Income before capital contributions	238,739
Capital contributions	245,315
Change in net assets	484,054
Net assets, beginning of year	4,506,117
Net assets, end of year	\$ 4,990,171

The accompanying notes are an integral part of these financial statements.

CLAYTON CHARTER TOWNSHIP

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

For the Year Ended December 31, 2006

	Water Supply and Sewage Disposal System
Cash flows from operating activities	
Receipts from customers and users	\$ 960,862
Payments to suppliers	(341,775)
Payments to employees	(47,800)
Net cash provided by operating activities	571,287
Cash flows from investing activities	
Investment income	51,597
Proceeds from sale and maturities of investment securities	36,960
Net cash provided by investing activities	88,557
Cash flows from capital and related financing activities	
Proceeds from bond issuance	1,748,615
Capital contributions received	245,315
Purchase of capital assets	(2,055,995)
Net cash used in capital and financing activities	(62,065)
Net increase in cash and cash equivalents	597,779
Cash and cash equivalents, beginning of year	584,837
Cash and cash equivalents, end of year	\$ 1,182,616
Statement of net asset classification of cash and cash equivalents	
Cash and investments	\$ 1,497,255
Less investments with maturities in excess of three months	(314,639)
Total cash and cash equivalents	\$ 1,182,616

The accompanying notes are an integral part of these financial statements.

CLAYTON CHARTER TOWNSHIP

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

For the Year Ended December 31, 2006

Reconciliation of Operating Income (Loss) to Net Cash Provided by
Operating Activities

	Water Supply and Sewage Disposal System
Operating income	\$ 187,142
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	45,971
Changes in assets and liabilities	
Receivables	(14,411)
Due from other funds	69,270
Due from other governments	252,664
Accounts payable	30,651
Net cash provided by operating activities	<u>\$ 571,287</u>

The accompanying notes are an integral part of these financial statements.

CLAYTON CHARTER TOWNSHIP
STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS

December 31, 2006

	<u>Total</u>
Assets	
Cash and cash equivalents	<u><u>\$ 1,629,655</u></u>
Liabilities	
Accounts payable	\$ 2,401
Deposits payable	2,040
Tax collections unallocated	<u>1,625,214</u>
Total liabilities	<u><u>\$ 1,629,655</u></u>

The accompanying notes are an integral part of these financial statements.

CLAYTON CHARTER TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Township of Clayton, Michigan elected Charter Township status in June 1978. The Charter Township of Clayton (the "Township") is governed by a seven member board of trustees and provides services to its residents as authorized by its charter in the areas of public safety (police, fire, and building inspections), highways and streets, sanitation, public improvements, recreation, planning, and general administrative services.

The Township currently does not have any component units as defined under current governmental accounting standards.

B. Basis of Presentation - Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

CLAYTON CHARTER TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The exception to this is for state shared revenue which is considered available within 90 days of year end and any amount derived from an expenditure driven grant agreement. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, income taxes, licenses, and charges for services associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Township reports the following major governmental funds:

General Fund. The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund.

The *Police Fund* is used to account for the activities related to the Township policing their own community.

The *Sanitation Fund* is used to account for the customer charges which are to be used to pay contracted services for rubbish collection.

The Township reports the following major proprietary fund:

The *Water Supply and Sewer Disposal System Fund* is maintained for the operations of the water distribution system and sewage pumping and collection system that transmit the sewage to Genesee County's treatment plant.

Additionally, the Township reports the following fund type:

Agency Funds are used to account for assets held by the Township as an agent for individuals, private organizations, other governments and/or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Agency Funds are reported as fiduciary funds.

CLAYTON CHARTER TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Township's water and sewer function and various other functions of the Township. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and interest income.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds principal ongoing operations. Principal operating revenues are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities, and Net Assets or Equity

Deposits and investments

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the Township are reported at fair value. Certificates of deposit with a maturity date of greater than three months at time of purchase are recorded as investments on the financial statements.

CLAYTON CHARTER TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

Receivables and payables

In general, outstanding balances between funds are reported as "due to/from other funds"; activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as "advances to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances to other funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade, notes, contracts and property tax receivables are shown net of an allowance for uncollectibles.

Prepaid items

Certain payments to vendors reflect cost applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two (2) years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Building	50
Building improvements	20
Land improvements	20
Public infrastructure	50-100
Vehicles	5
Equipment	5

CLAYTON CHARTER TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

Accumulated unpaid sick and vacation pay

All full-time employees can accumulate sick days at a rate of five days per year. Vacation pay can be accumulated by full-time employees up to a maximum of three weeks, depending on years of service. Unused sick and vacation days cannot be carried forward, and accordingly, no accrual for compensated absences has been recognized.

Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Property taxes

The Township levies property taxes on December 1 each year which are payable without penalty through February 28. These taxes become liens on the property at that date. However, the revenues generated by the tax levy cannot be appropriated until the budget year following the levy date. The asset created by the levy on December 1 is recorded in the appropriate fund as current taxes receivable. In addition, a deferred revenue offset account is recorded recognizing the funds as unavailable for current appropriation. Tax collections made from December 1 through December 31 in the current tax agency fund are recorded as unallocated tax collections. These monies are distributed to the appropriate funds in the ensuing budget year. Revenues generated by the levy of a 1% property tax administrative fee are recognized on a cash basis.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to November 1, the Supervisor submits to the Township Board a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them, for the General and Special Revenue Funds. Informational summaries of projected

CLAYTON CHARTER TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

revenues and expenditures are provided for all other Township funds, as well as estimated total costs and proposed methods of financing all capital construction projects.

2. Public hearings are conducted at the Township Hall to obtain taxpayer comments.
3. Prior to January 1, the budget is legally enacted on a departmental (activity) basis through passage of a resolution in accordance with Public Act 621 of the State of Michigan.
4. The Supervisor is authorized to transfer budgeted amounts within departmental appropriation accounts; however, any revisions that alter the total expenditures of any department must be approved by the Township Board.
5. Formal budgetary integration is employed as a management control device during the year for all budgetary funds. The Township does not recognize encumbrances at year end and as such they are reappropriated into the following year's budget. Also, all budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
6. Budget appropriations lapse at year-end.

B. Excess of Expenditures Over Appropriations

State statutes provide that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended December 31, 2006, the Township did not incur expenditures in excess of the amounts appropriated in any of the Township's departments.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

	Deposits	Petty Cash	Total
Governmental-wide financial statements			
Cash and cash equivalents	\$ 2,675,181	\$ 600	\$ 2,675,781
Investments - CD's	314,639	-	314,639
Cash and investments	2,989,820	600	2,990,420
Fiduciary fund financial statements			
Cash and cash equivalents	1,629,655	-	1,629,655
Total cash and investments	\$ 4,619,475	\$ 600	\$ 4,620,075

CLAYTON CHARTER TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

State statutes authorize the Township to invest in obligations of the U.S. Treasury and U.S. agencies, deposit agreements with federally insured financial institutions within the State of Michigan, high grade commercial paper, repurchase obligations of the U.S. Government and U.S. agencies, banker's acceptances of U.S. banks, and mutual funds comprised of the above authorized investments.

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the above list of authorized investments. The Township's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits investments to specific government securities, certificates of deposit and bank accounts with qualified institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. In compliance with State law, the Township's investment policy limits investments to the top two ratings issued by nationally recognized statistical rating organizations. The Township's investment policy does not have specific limits in excess of state law on investment credit risk.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned. State law does not require and the Township does not have a policy for deposit custodial credit risk. As of year-end \$2,599,448 of the Township's bank deposits of \$3,099,448 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Township does not have a policy for investment custodial credit risk.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The Township's investment policy does not have specific limits in excess of state law on concentration of credit risk.

B. Receivables

Taxes receivable compose approximately 82.4% of the total accounts receivable in the governmental activities. The remaining amount is composed of other receivables.

CLAYTON CHARTER TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

Business-type activities receivables are 37.7% due from unbilled utility charges. The remaining 62.3% is made up of 18.5% from accounts, 21.6% from delinquent fees, 12.0% from tap-in contracts, 9.3% from taxes receivable and 0.9% from accrued interest.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, deferred revenue of \$794,369 was unearned in the governmental funds as a result of property taxes assessed for the subsequent year.

C. Capital Assets

Capital asset activity for the year ended December 31, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 63,842	\$ -	\$ -	\$ 63,842
Capital assets being depreciated				
Buildings	399,242	-	-	399,242
Building improvements	173,443	9,687	-	183,130
Land improvements	32,846	-	-	32,846
Public infrastructure	56,827	-	-	56,827
Vehicles	116,995	34,025	(20,104)	130,916
Equipment	104,559	7,390	-	111,949
Total capital assets being depreciated	883,912	51,102	(20,104)	914,910
Less accumulated depreciation for				
Buildings	(215,934)	(3,849)	-	(219,783)
Building improvements	(137,557)	(3,095)	-	(140,652)
Land improvements	(8,083)	(1,376)	-	(9,459)
Public infrastructure	(2,274)	(1,136)	-	(3,410)
Vehicles	(46,101)	(30,204)	16,083	(60,222)
Equipment	(40,912)	(17,390)	-	(58,302)
Total accumulated depreciation	(450,861)	(57,050)	16,083	(491,828)
Total capital assets being depreciated, net	433,051	(5,948)	(4,021)	423,082
Governmental activities capital assets, net	\$ 496,893	\$ (5,948)	\$ (4,021)	\$ 486,924

CLAYTON CHARTER TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities				
Capital assets not being depreciated				
Sewer system	\$ -	\$ 1,748,616	\$ -	\$ 1,748,616
Water system	-	307,379	-	307,379
Total capital assets not being depreciated	<u>-</u>	<u>2,055,995</u>	<u>-</u>	<u>2,055,995</u>
Capital assets being depreciated				
Sewer system	3,522,702	-	-	3,522,702
Water system	644,621	-	-	644,621
Total capital assets being depreciated	<u>4,167,323</u>	<u>-</u>	<u>-</u>	<u>4,167,323</u>
Less accumulated depreciation for				
Sewer system	(673,125)	(35,227)	-	(708,352)
Water system	(65,592)	(10,744)	-	(76,336)
Total accumulated depreciation	<u>(738,717)</u>	<u>(45,971)</u>	<u>-</u>	<u>(784,688)</u>
Total capital assets being depreciated, net	<u>3,428,606</u>	<u>(45,971)</u>	<u>-</u>	<u>3,382,635</u>
Business-type activities capital assets, net	<u>\$ 3,428,606</u>	<u>\$ 2,010,024</u>	<u>\$ -</u>	<u>\$ 5,438,630</u>

Depreciation was charged to functions of the primary government as follows:

Governmental activities:

General government	\$ 4,470
Public safety	51,444
Public service	<u>1,136</u>

Total depreciation expense-governmental activities **\$57,050**

Business activities:

Sewer system	\$35,227
Water system	<u>10,744</u>

Total depreciation expense-governmental activities **\$45,971**

D. Interfund Receivables, Payables, and Transfers

The composition of interfund balances at December 31, 2006, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Water/Sewer	\$ 32,775
Debt Service	General	<u>4,500</u>
Total		<u>\$ 37,275</u>

CLAYTON CHARTER TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, and (2) transactions are recorded in the accounting system.

<u>Transfers Out</u>	<u>Transfers In</u>	<u>Amount</u>
General	Police fund	\$ 35,000
	Capital projects	43,260
Total		\$ 78,260

Transfers are used to move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations.

E. Long-term Debt

The Township entered into an agreement with Genesee County for the Western Trunk Extension of the County's Sanitary Sewage Disposal System running through Clayton Township. Significant details regarding the Township's obligation relating to this agreement are as follows:

<u>Year Ending December 31,</u>	<u>Principal Due</u>	<u>Interest Due</u>	<u>Total Payment</u>
2007	\$ 52,482	\$ 71,011	\$ 123,493
2008	54,868	68,864	123,732
2009	57,253	66,622	123,875
2010	59,639	64,284	123,923
2011	64,410	61,803	126,213
2012-2016	369,762	267,123	636,885
2017-2021	477,112	182,588	659,700
2022-2026	613,089	69,093	682,182
Total	\$ 1,748,615	\$ 851,387	\$ 2,600,003

CLAYTON CHARTER TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

Act 359, Public Acts of State 1933, authorizes the Township in using an installment purchase agreement. However, the contracts outstanding for the Township may not exceed 1.25% of the Township's taxable value. Significant details regarding the Township's installment obligations are as follows:

<u>Government activities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Amount</u>
Police Department	\$ 51,263	\$ -	\$ 51,263	\$ -	\$ -
<u>Business-type activities</u>					
Western trunk extension	\$ -	\$ 1,748,615	\$ -	\$ 1,748,615	\$ 52,482

IV. OTHER INFORMATION

A. Risk Management

The Township is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions, injuries and illnesses of employees; and natural disasters. The Township carries commercial insurance to cover any potential claims associated with these risks and has had no claims that exceeded coverage during the past three years.

B. Related Party Transaction

The Township has an agreement with a related party to perform custodial services in certain Township buildings. The agreement has a set fee of \$200 per month for the township hall and \$140 per month for the police building. There were no receivables or payables relating to this agreement as of year-end.

C. Property Taxes

The government's property taxes are levied each December 1 on the taxable valuation of property located in the Township as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest if paid in full by February 28th. As of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Genesee County. Assessed values, as established annually by the government and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value. The taxable value of real and personal property in the Township for the 2006 levy was \$206,306,840. The government's general operating tax rate was 1.04 mills with an additional 0.9808 for the Police Fund.

CLAYTON CHARTER TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

D. Committed and Contingent Liabilities

The Township participates in a number of federal and state assisted grant programs, principal of which is Community Development Block Grants (CDBG). These programs are subject to program compliance audits. In accordance with the Single Audit Act, a single audit was not required since the Township expended less than \$500,000 in federal funds. The amount, if any, of expenditures which may be disallowed by the granting agency cannot be determined at this time, although the Township expects such amounts, if any, to be immaterial.

E. Joint Venture

Swartz Creek Area Fire Department

In April 1980, the Charter Township of Clayton entered into a joint venture with the City of Swartz Creek to create the Swartz Creek Area Fire Department. The purpose of this joint venture was to obtain adequate fire protection for residents of the Township. The agreement calls for the quarterly accumulation of expenditures and then billing to each participating governmental unit on the basis of fire runs. The agreement provides the Charter Township of Clayton a half interest in the vehicles, offices, and operating equipment maintained by the Swartz Creek Area Fire Department. The Swartz Creek Area Fire Department submits each governmental units share of the annual operating budget before their respective governing boards for approval. For the year ended December 31, 2006, the fire department had total assets in the amount of \$30,482, liabilities of \$21,498, fund equity of \$8,984, revenues of \$287,859, and expenditures of \$278,875.

F. Defined Contribution Plan

The Township has a single employer defined contribution plan administered by John Hancock, covering substantially all full-time employees. Ten percent of projected base wages plus administrative costs is contributed to the plan by the Township at the beginning of the year. The employee also has the option of contributing an additional ten percent. The Township's policy is to fund contribution costs accrued on a monthly basis while the administrative costs are paid quarterly. Employer contributions for the year were \$34,478. No employee contributions were made. The defined contribution plan, as established, does not recognize prior service costs, as it is based exclusively on current compensation earned by participants.

G. Construction Code Revenue/Expenditures

The State Construction Code Act, Michigan Public Act 245 of 1999, and rules promulgated by the Department of Treasury regarding that Act, require that a local unit's fees collected from construction code permits be accounted for in a method which shows that all of these fees were used for expenditures related to the operation of the enforcing

CLAYTON CHARTER TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

agency. The rules indicated that if the revenues exceeded the expenditures, the fees collected must be kept in a separate fund with all the revenues and expenditures accounted for in that fund. These rules allowed for monitoring these funds in a separate activity center within the General Fund if the expenditures would normally exceed the revenues. The Township chose the latter because historically, the expenditures have exceeded revenues.

* * * * *

*Supplementary
Information*

CLAYTON CHARTER TOWNSHIP
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

December 31, 2006

	<u>Special Revenue</u>		<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>
	<u>Lighting Service</u>	<u>CDBG Fund</u>	<u>Debt Service</u>	<u>Revolving and Improvement</u>	
Assets					
Cash and investments	\$ 22,574	\$ -	\$ -	\$ 2,039	\$ 24,613
Receivables					
Customer assessments	11,825	-	-	-	11,825
Current taxes	-	-	-	76	76
Due from other funds	-	-	4,500	-	4,500
Total assets	<u>\$ 34,399</u>	<u>\$ -</u>	<u>\$ 4,500</u>	<u>\$ 2,115</u>	<u>\$ 41,014</u>
Liabilities					
Accounts payable	\$ 1,752	\$ -	\$ -	\$ -	\$ 1,752
Unearned revenue	22,545	-	-	-	22,545
Total liabilities	<u>24,297</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,297</u>
Fund balance					
Reserved for debt service	-	-	4,500	-	4,500
Unreserved, undesignated	10,102	-	-	2,115	12,217
Total fund balances	<u>10,102</u>	<u>-</u>	<u>4,500</u>	<u>2,115</u>	<u>16,717</u>
Total liabilities and fund balance	<u>\$ 34,399</u>	<u>\$ -</u>	<u>\$ 4,500</u>	<u>\$ 2,115</u>	<u>\$ 41,014</u>

CLAYTON CHARTER TOWNSHIP
COMBINING STATEMENT OF REVENUES, EXPENDITURES
NONMAJOR GOVERNMENTAL FUNDS

For the Year Ended December 31, 2006

	<u>Special Revenue</u>		<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>
	<u>Lighting Service</u>	<u>CDBG Fund</u>	<u>Debt Service</u>	<u>Revolving & Improvement</u>	
Revenues					
Customer assessments	\$ 18,845	\$ -	\$ -	\$ -	\$ 18,845
Interest	913	-	-	76	989
Grants	-	1,769	-	-	1,769
Total revenues	19,758	1,769	-	76	21,603
Expenditures					
Public service	19,223	-	-	7,390	26,613
Community development	-	1,769	-	-	1,769
Capital outlay	-	-	-	35,870	35,870
Total expenditures	19,223	1,769	-	43,260	64,252
Revenues over (under) expenditures	535	-	-	(43,184)	(42,649)
Other financing sources (uses)					
Transfers in	-	-	-	43,260	43,260
Net change in fund balances	535	-	-	76	611
Fund balances, beginning of year	9,567	-	4,500	2,039	16,106
Fund balances, end of year	\$ 10,102	\$ -	\$4,500	\$ 2,115	\$ 16,717

CLAYTON CHARTER TOWNSHIP

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

LIGHTING FUND

For the Year Ended December 31, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Customer assessments	\$ 18,967	\$ 20,928	\$ 18,845	\$ (2,083)
Interest	1	700	913	213
Total revenues	<u>18,968</u>	<u>21,628</u>	<u>19,758</u>	<u>(1,870)</u>
Expenditures				
Public service	<u>18,968</u>	<u>21,035</u>	<u>19,223</u>	<u>(1,812)</u>
Net change in fund balances	-	593	535	(58)
Fund balance, beginning of year	<u>9,567</u>	<u>9,567</u>	<u>9,567</u>	<u>-</u>
Fund balance, end of year	<u>\$ 9,567</u>	<u>\$ 10,160</u>	<u>\$ 10,102</u>	<u>\$ (58)</u>

CLAYTON CHARTER TOWNSHIP
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL

CDBG FUND

For the Year Ended December 31, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Grant revenue	<u>\$ 105,000</u>	<u>\$ 105,000</u>	<u>\$ 1,769</u>	<u>\$ (103,231)</u>
Expenditures				
Public service	<u>105,000</u>	<u>105,000</u>	<u>1,769</u>	<u>(103,231)</u>
Net change in fund balances	-	-	-	-
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

CLAYTON CHARTER TOWNSHIP

COMBINING STATEMENT OF FIDUCIARY NET ASSETS AGENCY FUNDS

December 31, 2006

	<u>Current Tax Fund</u>	<u>General Agency</u>	<u>Total</u>
Assets			
Cash and cash equivalents	<u>\$ 1,626,540</u>	<u>\$ 3,115</u>	<u>\$ 1,629,655</u>
Liabilities			
Accounts payable	\$ 1,326	\$ 1,075	\$ 2,401
Accrued liabilities	-	2,040	2,040
Tax collections unallocated	<u>1,625,214</u>	<u>-</u>	<u>1,625,214</u>
Total liabilities	<u>\$ 1,626,540</u>	<u>\$ 3,115</u>	<u>\$ 1,629,655</u>

*Internal Control
and
Compliance*



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

June 11, 2007

To the Board of Trustees
Clayton Charter Township
Genesee County, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the ***Clayton Charter Township*** (the "Township"), as of and for the year ended December 31, 2006, which collectively comprise the Township's basic financial statements and have issued our report thereon dated June 11, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described below to be a significant deficiency in internal control over financial reporting.

Finding 2006-1 – Preparation of Financial Statements in Accordance with GAAP

Criteria:	All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)
Condition:	As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its <i>external</i> auditors, who cannot by definition be considered a part of the government's <i>internal</i> controls.
Cause:	This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.
Effect:	As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.
View of Responsible Officials:	The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency above to be a material weakness.

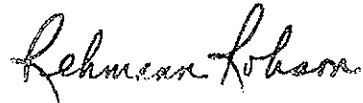
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of the Township in a separate letter dated June 11, 2007.

The Township's responses to the findings identified in our audit are described above. We did not audit the Township's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management and the board members, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, reading "Rehman Lobson".



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

June 11, 2007

To the Board of Trustees
Clayton Charter Township
Genesee County, Michigan

We have audited the financial statements of **Clayton Charter Township, Genesee County, Michigan** (the "Township") for the year ended **December 31, 2006**, and have issued our report thereon dated **June 11, 2007**. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards

As stated in our engagement letter dated **January 18, 2007**, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Township. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Township's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Township are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Township during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable fixed assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Township's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, several of the adjustments we proposed, whether recorded or unrecorded by the Township, either individually or in the aggregate, indicated matters that could have a significant effect on the Township's financial reporting process. These include areas relating to transfers, due to/from other governments, interest receivable, fund balance, taxes receivable, water/sewer receivables, accrued liabilities, capital assets, contributions, and long-term debt. As a result, we believe that these items are an indication of a material weakness in the Township's internal controls over the ability to provide financial statements in accordance with generally accepted accounting principals as described in the comments and recommendations section below.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Township's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum are intended for the use of the Board of Commissioners, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script, reading "Lehmann Johnson". The signature is written in dark ink and is positioned to the right of the "Very truly yours," text.

Clayton Charter Township

Comments and Recommendations

For the Year Ended December 31, 2006

In planning and performing our audit of the financial statements of **Clayton Charter Township** (the "Township") as of and for the year ended **December 31, 2006**, in accordance with auditing standards generally accepted in the United States of America, we considered the Township's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we identified certain deficiencies in internal control that we consider to be significant deficiencies and/or material weaknesses, which are described in our separate report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that certain deficiencies, as described above, constitute material weaknesses.

Other Matters:

Bank Accounts

During our audit we noted a savings account was opened under the Townships federal ID number. However we did not observe approval for the new account by the governing board.

This condition in light of the Townships limited ability for segregation of duties and current internal control structure, increases the risk of financial misstatement due to errors or irregularities.

We would recommend that the Township consider requiring board approval for any new bank accounts. We believe that this internal control will assist the Township in strengthening the internal controls over cash.

Clayton Charter Township

Comments and Recommendations

For the Year Ended December 31, 2006

Credit Card Policy

Our audit procedures indicate that credit cards were issued and used by the Township without first adopting a credit card policy.

Under current State of Michigan regulations and compliance requirements, a credit card policy must be adopted in accordance with P.A. 266 of 1995 (MCL 129.241).

It is our understanding that the Township has subsequently adopted a credit card policy. We believe that this will strengthen the Township's internal controls over disbursements as well as meet the compliance requirements established by the State of Michigan.

Lawful Expenditures

During our audit we noted an instance of an expenditure by the Township that may be considered as unallowable under current State of Michigan guidelines.

We believe that this condition is a result of management's awareness and interpretation of the State of Michigan's Local Audit Division's position of what constitutes an allowable expenditure.

Although the amount noted was insignificant from an audit perspective, the State of Michigan's standards do not involve materiality. We would recommend that the Township's management review the criteria for lawful and unallowable expenditures and approve Township disbursements based on this criteria or seek legal counsel for an opinion for items that may be questionable. We believe that this will strengthen the Township's internal controls over disbursements and better conform to State guidelines.

Approving Expenditures

Our audit procedures indicated that disbursements for vender and other various invoices were performed prior to board approval.

The State of Michigan requires that all invoices be approved by the governing board prior to disbursements **unless** a policy has otherwise been addressed in the Charter. The State guidance expands its interpretation to indicate that any policy allowing for disbursements prior to board approval must be limited and a listing of these disbursements must subsequently be presented to the board for approval.

It is our understanding that the Township has subsequently adopted such a policy.

Overtime Pay

During our audit, we noted that overtime pay was disbursed to the Township clerk and employees for time spent during elections. This overtime pay to the Township clerk and employees was disbursed through the accounts payable system as opposed to correctly distributing the pay through the payroll system. As such, payroll taxes, including the Township's share was not calculated and distributed to the appropriate governmental agencies. In addition, we noted that the overtime pay, including the Township Clerk, was subsequently billed to other governmental entities for their prorated share of the additional expenditures.

Clayton Charter Township

Comments and Recommendations

For the Year Ended December 31, 2006

We would recommend that any additional compensation paid to employees that are normally on the Township's payroll cycle, be paid through the Township's payroll system. We believe that the Township will benefit from reducing the risk of being liable for payroll liabilities due to other governmental entities.

Payroll Disbursements

During our audit procedures, we noted that payroll was calculated, processed and in some cases disbursed prior to the end of the payroll period.

Although we noted that the Township has procedures in place to account for, on an after the fact basis, any variances between actual time provided and paid time incurred, including the nature of any actual time including paid time off, we believe that there is an inherent risk in internal controls with this process.

We would recommend that approved time cards including both the employees and supervisors approval be submitted to the appropriate Township official for final approval and processing. We believe that the Township will benefit by reducing the inherent internal control risks associated with the current system, while generating better controls over payroll accounting.